

ALGONQUIN BUILDING CREDITS LIMITED

FOR THE FISCAL YEAR ENDING DECEMBER 31st, 1966

TENTH ANNUAL REPORT

Head Office, 10 EGLINTON AVENUE EAST, TORONTO, ONTARIO

ALGONQUIN BUILDING CREDITS LIMITED

DIRECTORS

W. T. CLAYTON	-	-	-	-	-	-	-	-	-	WOODSTOCK, ONTARIO
W. J. CORCORAN	-	-	-	-	-	-	-	-	-	TORONTO, ONTARIO
R. D. GRANT	-	-	-	-	-	-	-	-	-	TORONTO, ONTARIO
T. H. INGLIS	-	-	-	-	-	-	-	-	-	TORONTO, ONTARIO
F. D. LACE	-	-	-	-	-	-	-	-	-	TORONTO, ONTARIO
R. W. L. LAIDLAW	-	-	-	-	-	-	-	-	-	TORONTO, ONTARIO
C. C. LAKING	-	-	-	-	-	-	-	-	-	TORONTO, ONTARIO
D. E. McQUIGGE	-	-	-	-	-	-	-	-	-	TORONTO, ONTARIO
W. B. MACDONALD	-	-	-	-	-	-	-	-	-	TORONTO, ONTARIO
G. I. MacKENZIE	-	-	-	-	-	-	-	-	-	TORONTO, ONTARIO
D. R. MUSGRAVE	-	-	-	-	-	-	-	-	-	TORONTO, ONTARIO

OFFICERS

G. I. MacKENZIE	-	-	-	-	-	-	-	-	-	PRESIDENT AND TREASURER
D. R. MUSGRAVE	-	-	-	-	-	-	-	-	-	VICE-PRESIDENT
F. M. FELL	-	-	-	-	-	-	-	-	-	SECRETARY

AUDITORS

CLARKSON, GORDON & CO.
CHARTERED ACCOUNTANTS
TORONTO, ONTARIO

TRANSFER AGENT AND REGISTRAR

THE ROYAL TRUST COMPANY
TORONTO, ONTARIO

TRUSTEE

Sinking Fund Debentures
CANADA PERMANENT TRUST COMPANY
TORONTO, ONTARIO

TRUSTEE

Collateral Trust Notes
THE ROYAL TRUST COMPANY
TORONTO, ONTARIO

REPORT OF THE DIRECTORS

DEAR SHAREHOLDER:

The Auditors Report, together with the notes accompanying the consolidated financial statements for the year ending December 31, 1966, emphasize the special operating conditions that were applicable throughout the period under review.

By instrument dated April 1, 1966, the holders of the company's Collateral Trust Notes sanctioned certain changes in the Notes and in the indentures securing the same and authorized the issue of additional Notes as collateral security for the company's outstanding Bank indebtedness. After giving effect to these changes, the company had outstanding \$1,157,625 - 6 $\frac{7}{8}$ % Collateral Trust Notes, Series C, \$3,205,000 - 6% Collateral Trust Notes, Series D and \$214,375 - 7% Collateral Trust Notes, Series E, all payable on demand and secured equally and proportionately by the pledge and charge of all of the company's instalment obligations and mortgages. The Notes of each series are being retired in proportion to their outstanding principal amounts.

In accordance with extraordinary resolutions passed by the holders of the company's Debentures at a meeting thereof held December 20, 1965, the Trustee has refrained from taking any action which it was otherwise entitled to take by reason of the company's default under certain covenants contained in the Debenture indentures. The committee of the Debentureholders appointed at the said meeting has been kept informed on the operations of the company and one member of this committee has been appointed a director of the company. In view of the company's agreement to retire its senior indebtedness as quickly as possible, no debenture sinking fund payments were made in 1966.

In consequence of the foregoing no new contracts in either notes or mortgages were purchased, and all cash received, less operating costs and interest payments, was applied to the discharge of the company's obligations to its bankers and secured note holders. During the fiscal year these obligations were reduced by an amount of \$2,348,000 from \$5,375,000 to \$3,027,000 and during the current year have been further reduced to \$2,602,000.

During 1965 two special studies by our auditors and management on the collectibility of your company's receivables resulted in setting up a loss reserve of \$1,064,000 in the financial statements for the year ending December 31, 1965, of which \$826,000 was allocated to instalment notes and \$238,000 to mortgages. A study of delinquent accounts during the latter part of 1966 indicated the advisability of a reserve of \$1,021,109 of which \$833,324 was allocated to instalment notes and \$187,785 to mortgages.

Through contracts maturing and pay-outs in advance of maturity, the number of accounts was reduced during the year from 6,505 to 3,786 on instalment notes, and from 684 to 618 on mortgages.

The net loss of \$248,090 (which includes the special write-off of unamortized note issue expense and discount of \$51,068) represents a further impairment of the shareholders equity. There is, however, a substantial tax loss approximating \$900,000 which could be valuable under certain conditions.

All the normal procedures of collection, mortgage management, accounting and administration are being aggressively pursued and forecasts indicate that senior debt reduction can be continued through the 1967 fiscal year. General and administration expenses declined over \$100,000 from the preceding year and additional reductions will be effected as obligations for rent and other fixed overheads decrease. Our punch card accounting system was replaced by a contract with a data processing centre, which resulted in important savings without sacrificing operating efficiency. Benefits from this change will continue to accrue throughout the current year.

We extend sincere appreciation to the staff for a fine co-operative effort in dealing with the problems resulting from a decline in the company's operations. With great regret we accepted the resignations of Mr. W. J. Corcoran, and Mr. W. T. Clayton, formerly President and Secretary-Treasurer, respectively, both of whom continue as directors. Mr. G. I. MacKenzie was appointed President and Treasurer on January 20th, 1967.

On Behalf of the Board,

G. I. MacKENZIE,
President

Toronto, Ontario, April 25th, 1967.

ALGONQUIN BUILDING CREDITS LIMITED

(Incorporated under the laws of Ontario)

and its wholly-owned subsidiary

Algonquin Capital Corporation Limited

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1966

(with comparative figures at December 31, 1965)

ASSETS

	1966	1965
CURRENT ASSETS:		
Cash	\$ 55,930	\$ 331,195
Income taxes recoverable	33,000	60,000
Instalment notes receivable (including amounts not due within one year of approximately \$2,163,000 in 1966 and \$3,297,000 in 1965) after allowance for doubtful accounts of \$833,324 in 1966 and \$826,641 in 1965 (note 2)	* 2,693,538	4,979,056
Accrued mortgage interest receivable	8,142	10,143
Sundry accounts receivable and prepaid expenses	35,709	29,175
Total current assets	* 2,826,319	5,409,569
 MORTGAGES RECEIVABLE:		
Mortgages receivable over terms of up to fifteen years (including instalments due within one year of \$455,000 in 1966 and \$448,000 in 1965) after allowance for doubtful accounts of \$187,785 in 1966 and \$237,712 in 1965 (note 3)	* 2,614,483	3,023,418
 FIXED ASSETS:		
Office equipment, at cost and unamortized leasehold improvements	46,667	48,886
Less accumulated depreciation	33,625	30,439
Total fixed assets	13,042	18,447
 DEFERRED CHARGES:		
Unamortized debenture issue expense (note 5)	62,562	133,189
Deferred mortgage acquisition costs	10,564	23,022
	73,126	156,211
 On behalf of the Board: G. I. MACKENZIE, <i>Director</i> W. T. CLAYTON, <i>Director</i>		
	<u>\$ 5,526,970</u>	<u>\$ 8,607,645</u>

(See accompanying notes)

ALGONQUIN BUILDING CREDITS LIMITED

(Incorporated under the laws of Ontario)

and its wholly-owned subsidiary

Algonquin Capital Corporation Limited

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1966

(with comparative figures at December 31, 1965)

LIABILITIES

	1966	1965
CURRENT LIABILITIES:		
Bank loan — secured	\$ 937,245	\$ 2,300,000
Accounts payable and accrued charges	83,067	97,776
6 $\frac{7}{8}$ % Collateral trust notes, Series C, payable on demand (note 5)	765,630	
6 % Collateral trust notes, Series D, payable on demand	1,182,445	1,475,000
7 % Collateral trust notes, Series E, payable on demand (note 5)	141,680	
Total current liabilities	3,110,067	3,872,776
DEFERRED INCOME:		
Unearned service charges, instalment notes receivable	238,755	661,391
Unearned interest on mortgages	189,801	237,041
Total deferred income	428,556	898,432
LONG TERM LIABILITIES (notes 4 and 5):		
6 $\frac{7}{8}$ % Sinking fund collateral trust notes, Series C, maturing May 15, 1976 (note 5)		1,350,000
7 % Collateral trust notes, Series E, maturing September 1, 1969 (note 5)		250,000
7 % Sinking fund debentures, Series A, maturing March 15, 1970	480,000	480,000
6 $\frac{3}{4}$ % Sinking fund debentures, Series B, maturing August 1, 1983	588,000	588,000
6 $\frac{1}{2}$ % Debentures, Series C, maturing April 15, 1984	600,000	600,000
Total long term liabilities	1,668,000	3,268,000
SHAREHOLDERS' EQUITY:		
Capital (notes 6 and 7) —		
6 $\frac{1}{2}$ % cumulative, redeemable preference shares of \$20 par value each:		
Authorized — 25,000 shares		
Issued — 25,000 shares	500,000	500,000
Common shares of no par value:		
Authorized — 300,000 shares		
Issued — 125,106 shares	734,061	734,061
	1,234,061	1,234,061
Less commissions and expenses paid on issue of shares (less premiums received)	36,611	36,611
	1,197,450	1,197,450
Deficit	(877,103)	(629,013)
Total shareholders' equity	320,347	568,437
	<u>\$ 5,526,970</u>	<u>\$ 8,607,645</u>

AUDITORS' REPORT

To the Shareholders of
Algonquin Building Credits Limited:

We have examined the consolidated balance sheet of Algonquin Building Credits Limited and its wholly-owned subsidiary as at December 31, 1966 and the statements of consolidated profit and loss and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

While the company is in default under the trust indentures securing the debentures as explained in note 4 and is not presently permitted to acquire additional instalment notes or mortgages, the accounts have been prepared on the basis of a going concern and without regard to any consequences of the default. With this explanation, in our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and deficit present fairly the financial position of the companies as at December 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 16, 1967.

CLARKSON, GORDON & CO.,
Chartered Accountants.

ALGONQUIN BUILDING CREDITS LIMITED

and its wholly-owned subsidiary
Algonquin Capital Corporation Limited

**STATEMENTS OF CONSOLIDATED PROFIT AND LOSS
AND CONSOLIDATED DEFICIT**

FOR THE YEAR ENDED DECEMBER 31, 1966
(with comparative figures for the year 1965)

CONSOLIDATED PROFIT AND LOSS

	1966	1965
REVENUE:		
Earned service charges and other income	\$ 637,282	\$1,119,012
EXPENSES:		
General and administrative expenses	299,387	400,728
Costs of borrowing money	395,845	516,628
Provision for doubtful accounts	125,517	74,845
Amortization of mortgage acquisition costs	10,038	15,366
Depreciation	3,517	5,620
Total expenses	834,304	1,013,187
Profit (loss) before special items	(197,022)	105,825
Deduct:		
Special write-off of note issue expense and discount (note 5)	51,068	
Special provision for doubtful accounts		981,262
Income taxes recovered		(110,274)
	51,068	870,988
Net loss for the year	\$ 248,090	\$ 765,163

CONSOLIDATED DEFICIT

	1966	1965
Deficit (earned surplus) at beginning of year	\$ 629,013	\$ (171,166)
Add:		
Net loss for the year	248,090	765,163
Dividends paid: Preference shares		16,250
Common shares		18,766
		800,179
Deficit at end of year	\$ 877,103	\$ 629,013

ALGONQUIN BUILDING CREDITS LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 1966

1. The continuity of the allowance for doubtful accounts is as follows:

Balance January 1, 1966	\$1,064,353
Add provision for the current year	125,517
	1,189,870
Less notes and mortgages written off (net)	168,761
Balance December 31, 1966	\$1,021,109
Allocated as follows:	
Notes receivable (note 2)	\$ 833,324
Mortgages (note 3)	187,785
	\$1,021,109

Because of the substantial bad debt losses and restrictions contained in the supplemental trust indenture referred to in note 5, the company has discontinued the acquisition of notes and mortgages. All cash received, less operating costs, is being applied to the discharge of obligations. In addition to deferred service charges and interest of \$428,556, the company will obtain income from interest-bearing mortgages.

Notes to the Consolidated Financial Statements (continued)

2. The following summary shows the extent of the arrears of instalments on the notes receivable at December 31, 1966:

Accounts with instalments less than 30 days in arrears or with no arrears		\$1,478,063
Accounts with instalments in arrears for —		
30 to 59 days	\$ 275,654	
60 to 89 days	123,205	
90 days or more	<u>1,649,940</u>	<u>2,048,799</u>
Total notes receivable before deducting allowance for doubtful accounts		<u>\$3,526,862</u>

The extent to which specific allowances for doubtful accounts cover the accounts to which they relate is shown by the following summary:

	Balance of notes receivable	Specific allowance provided
	(Thousands of dollars)	
Accounts fully provided	\$ 403	\$403
Accounts with provision of 65%-90%	196	151
Accounts with provision of 40%-64%	395	197
Accounts with provision of less than 40%	<u>227</u>	<u>57</u>
	<u>\$1,221</u>	<u>\$808</u>

The remaining unallocated allowance on doubtful accounts of \$25,324 is available to cover other overdue and current accounts and any shortfall in the estimated recovery in those cases where the amount of the allowance is less than 100% of the balance owing.

3. The following summary shows the status of mortgages held by the subsidiary company at December 31, 1966 and the portion of the allowance for doubtful accounts of \$187,785 that has been applied to specific delinquent accounts:

	Accounts with instalments 90 days or more in arrears	Accounts with no arrears or with instalments less than 90 days in arrears	Total	Allowance for doubtful accounts applied against specific accounts
Interest-included mortgages (including those arising on conversion of home improvement loans)	\$229,164	\$ 390,063	\$ 619,227	\$ 37,300
Interest-bearing mortgages:				
(a) Arising on conversion of home improvement loans	219,975	1,412,587	2,032,897	49,300
(b) Acquired directly by the subsidiary	400,335			47,900
Other mortgages	128,100	18,395	146,495	28,100
	<u>\$977,574</u>	<u>\$1,821,045</u>	<u>2,798,619</u>	<u>162,600</u>
Sundry advances			3,649	
			<u>\$2,802,268</u>	<u>\$162,600</u>

The remaining unallocated allowance for doubtful accounts of \$25,185 is available to offset any additional losses.

4. The bad debt losses referred to in note 1 resulted in the breach by the company under the debenture trust indentures of certain covenants limiting the amount of the company's funded debt in relation to its shareholders' equity and unearned service charges and in the failure of the company to meet the sinking fund payments on the Series A and B debentures. Meetings of the holders of the company's debentures have been held and appropriate action has been taken to deal with these defaults without forcing the immediate realization of the assets of the company.

The trust indenture securing the sinking fund debentures contains dividend and share redemption restrictions based on the relationship of the shareholders' equity to unsecured funded indebtedness. The Series A debentures are redeemable at a premium of 2.8% to March 15, 1967 and at reducing amounts thereafter. The Series B debentures are redeemable at a premium of 5.55% to August 1, 1967 and at reducing amounts thereafter. The Series C debentures are redeemable at premium of 5.7% to April 15, 1967 and at reducing amounts thereafter.

Notes to the Consolidated Financial Statements (continued)

5. The supplemental trust indenture, dated April 1, 1966, relating to the collateral trust notes, includes, among other provisions, the following amendments to the previous indentures:
 - (i) Series D collateral trust notes interest converted from $5\frac{3}{4}\%$ to 6% .
 - (ii) Series C and Series E collateral trust notes became payable on demand.
 - (iii) The company may not purchase or acquire mortgages or instalment obligations except for the purpose of collecting or facilitating the collection of existing instalment or mortgage obligations.Unamortized note expenses and discounts amounting to \$51,068, pertaining to the collateral trust notes, were written off because the notes became payable on demand.

The supplemental trust indenture securing the collateral trust notes, Series C, limits the aggregate amount of dividends (other than stock dividends) and the redemption of capital stock subsequent to January 1, 1961 to the amount of the consolidated net earnings arising from that date.
6. The preference shares are redeemable at a premium of $2\frac{1}{2}\%$. The supplementary letters patent creating the preference shares contain restrictions concerning the issue of additional preference shares. The arrears of dividends on the preferred shares amounted to \$48,750 at December 31, 1966 and dividends on such shares were paid to June 15, 1965.
7. At December 31, 1966 the following warrants and options to subscribe for or purchase common shares were outstanding:
 - (i) Share purchase warrants (issued with the Series B debentures, the Series C debentures and the 15,000 $6\frac{1}{2}\%$ cumulative redeemable preference shares issued in 1964) entitling the holders thereof to purchase an aggregate of 27,000 common shares at \$14 per share to August 1, 1969.
 - (ii) An option to a director of the company to purchase all or any part of 10,000 common shares at \$12 per share, exercisable cumulatively at the rate of not more than 2,000 shares per annum, on or before October 1, in each of the years 1964 to 1968 inclusive.
8. The estimated loss available for income tax purposes to offset any future earnings amounts to \$900,000 at December 31, 1966 of which \$702,000 applies to the parent company and \$198,000 to the wholly-owned subsidiary.